TEXAS A&M UNIVERSITY (TAMU) ECON202 PRACTICE EXAM 2 (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR THE FULL VERSION STUDY GUIDE

https://tamu-econ202-exam2.examzify.com

Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

SAMPLE

Table of Contents

Copyright 1
Table of Contents 2
Introduction 3
How to Use This Guide 4
Questions 5
Answers 8
Explanations 10
Next Steps 16

SAMPLE

Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

SAMPLE

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

SAMPLE

Questions

SAMPLE

1. What results in a decrease in equilibrium quantity for a product?

A. Only a decrease in supply

B. A decrease in demand or supply

C. Increase in demand without changes in supply

D. A change in consumer preferences only

2. What is one potential drawback of a command-and-control policy?

A. It provides clear incentives for innovation.

B. It can lack flexibility in different circumstances.

C. It encourages pollution reduction through subsidies.

D. It promotes profit maximization among firms.

3. In economic efficiency, marginal benefit equals marginal cost at:

A. The last unit sold

B. The first unit sold

C. Any unit sold

D. None of the units sold

4. What is the outcome when an economic activity imposes costs on third parties?

A. A negative externality

B. A positive externality

C. An external benefit

D. A social gain

5. What characterizes a market with elastic supply?

A. Suppliers cannot easily change output

B. Suppliers can increase production rapidly without a significant increase in costs

C. Demand for the product is unresponsive to price changes

D. Production costs are fixed over time

SAMPLE

6. What is the likely outcome when the demand and supply curves for a commodity both shift to the right by the same amount?

A. Higher price and lower quantity

B. Higher quantity and same price

C. Same quantity and same price

D. Lower quantity and higher price

7. Why might a Pigouvian tax be considered beneficial for society?

A. It can reduce the overall tax burden on individuals.

B. It can lead to efficient resource allocation and reduced pollution.

C. It encourages excessive production.

D. It increases prices for consumers.

8. Is it true that if transaction costs are low, private bargaining will always result in an efficient solution to externalities?

A. True

B. False

C. It depends on the extent of the externality

D. None of the above

9. In general, if demand is more elastic, who tends to bear less of the tax burden?

A. Consumers

B. Producers

C. Both equally

D. There is no impact

10. What role do transaction costs play in the Coase theorem?

A. They promote government regulation

B. They can hinder or facilitate negotiation

C. They are irrelevant to the theorem

D. They always lead to inefficient outcomes

SAMPLE

Answers

SAMPLE

1. B
2. B
3. A
4. A
5. B
6. B
7. B
8. B
9. A
10. B

SAMPLE

Explanations

SAMPLE

1. What results in a decrease in equilibrium quantity for a product?

A. Only a decrease in supply

B. A decrease in demand or supply

C. Increase in demand without changes in supply

D. A change in consumer preferences only

A decrease in equilibrium quantity for a product occurs when there is a shift in either the demand or supply curve that leads to lower quantities being bought and sold. When both demand and supply decrease, the equilibrium quantity will drop because there are fewer goods being demanded at every price level while simultaneously fewer products are available for sale. This dual impact directly results in a lower quantity exchanged in the market. For example, if consumer demand drops due to changing tastes or preferences away from the good, that would decrease demand, leading to fewer products being bought. Meanwhile, if producers anticipate this decline or face rising production costs, they might reduce the quantity they supply to the market. The combination of these two factors effectively lowers the equilibrium quantity. In scenarios involving just a decrease in supply or a change in consumer preferences alone, the outcomes for equilibrium quantity could vary based on additional market factors and might not necessarily result in a decrease. For instance, a decrease in supply usually increases price, which could lead to a decrease in quantity demanded but doesn't always guarantee a net reduction in total quantity exchanged. Thus, the choice indicating a decrease in both demand and supply is correct in identifying the conditions necessary for a decrease in equilibrium quantity.

2. What is one potential drawback of a command-and-control policy?

A. It provides clear incentives for innovation.

B. It can lack flexibility in different circumstances.

C. It encourages pollution reduction through subsidies.

D. It promotes profit maximization among firms.

A command-and-control policy typically involves regulatory measures where the government sets specific limits or standards for pollution or resource use that businesses must adhere to. One significant drawback of this approach is its lack of flexibility in addressing varying circumstances across different situations or regions. By enforcing uniform regulations, command-and-control policies can fail to account for the unique environmental, economic, and social contexts in which businesses operate. This can lead to inefficiencies, as all firms must conform to the same rules regardless of their individual capabilities, technologies, or the specific environmental challenges they face. For instance, a strict emissions limit may be reasonable for one location but overly burdensome for another where the economic impact could be more severe, potentially stifling innovation and forcing companies to invest in costly technologies that may not be necessary for all situations. Thus, the rigid nature of command-and-control policies can hinder adaptability and responsiveness, which are often necessary for effective environmental management and sustainable development.

SAMPLE

3. In economic efficiency, marginal benefit equals marginal cost at:

A. The last unit sold

B. The first unit sold

C. Any unit sold

D. None of the units sold

In the context of economic efficiency, the principle that marginal benefit equals marginal cost is crucial for determining the optimal level of production and consumption. When these two concepts are equal, it indicates that resources are being allocated in a manner that maximizes overall welfare or satisfaction. At the last unit sold, the benefit derived from consuming that unit matches the cost incurred to produce it. This balance ensures that no further gains can be achieved by producing additional units; any extra production would result in a marginal cost that exceeds the marginal benefit, leading to a reduction in overall efficiency. Therefore, operating at this point means that the economy is using its resources effectively, without excess or scarcity. The other choices reflect points in the consumption or production process that do not align with this principle. For instance, the first unit sold may not capture the total marginal costs involved in production, while stating "any unit sold" fails to recognize that efficiency is found specifically when the benefit is balanced with the cost at the last unit. Lastly, asserting "none of the units sold" overlooks the fact that economic efficiency is achievable at a specific point where marginal benefit and marginal cost converge, which occurs at the last unit sold.

4. What is the outcome when an economic activity imposes costs on third parties?

A. A negative externality

B. A positive externality

C. An external benefit

D. A social gain

When an economic activity imposes costs on third parties, this situation is defined as a negative externality. Negative externalities occur when the actions of individuals or businesses have adverse effects on others who are not directly involved in the transaction or activity. For example, pollution from a factory can harm the health of nearby residents who are not part of the production process. This concept highlights a fundamental issue in economics where the market fails to account for the social costs imposed by such activities, leading to overproduction or excessive consumption of goods or services that generate these external costs. The presence of negative externalities often calls for government intervention or policy measures to correct the market failure, such as regulations, taxes, or incentives to reduce the negative impacts on third parties. In contrast, positive externalities occur when an activity confers benefits on third parties, which is not the case here. An external benefit is another term synonymous with positive externalities, while social gain refers to a broader benefit accruing to society rather than specifically addressing external costs. Thus, recognizing negative externalities is crucial for understanding market dynamics and the need for potential regulatory responses.

SAMPLE

5. What characterizes a market with elastic supply?

A. Suppliers cannot easily change output

B. Suppliers can increase production rapidly without a significant increase in costs

C. Demand for the product is unresponsive to price changes

D. Production costs are fixed over time

A market with elastic supply is characterized by suppliers' ability to increase production rapidly without a significant increase in costs. This means that when the price of the product increases, suppliers can respond quickly by boosting output, which is a key feature of elasticity in supply. In such scenarios, suppliers have the necessary flexibility and resources, such as readily available labor and materials, to scale up their production in response to changing market conditions. This responsiveness to price changes allows markets with elastic supply to adjust more fluidly to shifts in demand. When the supply is elastic, even small changes in price can lead to substantial changes in the quantity supplied, making it advantageous for both suppliers and consumers in a market context.

6. What is the likely outcome when the demand and supply curves for a commodity both shift to the right by the same amount?

A. Higher price and lower quantity

B. Higher quantity and same price

C. Same quantity and same price

D. Lower quantity and higher price

When both the demand and supply curves for a commodity shift to the right by the same amount, it indicates that there is an increase in both the quantity demanded and the quantity supplied at every price level. As the demand curve shifts to the right, consumers are willing to purchase more of the commodity at each price point, reflecting an increase in demand. Simultaneously, the supply curve shifting to the right means that producers are willing to supply more of the commodity at each price level, suggesting an increase in supply. Because both curves are shifting rightward by the same amount, the increase in supply offsets the increase in demand, leading to a higher quantity of the commodity being sold in the market. However, the equilibrium price remains unchanged because the increase in demand is exactly matched by the increase in supply, leaving the market price stable. This scenario highlights the concept of market equilibrium, where the quantity supplied equals the quantity demanded, and the movements in both curves create a new equilibrium quantity without affecting the equilibrium price. Therefore, the correct outcome of a simultaneous rightward shift in both demand and supply curves is a higher quantity sold at the same price.

SAMPLE

7. Why might a Pigouvian tax be considered beneficial for society?

A. It can reduce the overall tax burden on individuals.

B. It can lead to efficient resource allocation and reduced pollution.

C. It encourages excessive production.

D. It increases prices for consumers.

A Pigouvian tax is designed to address negative externalities, which are costs that are not reflected in the market price of goods or services. This type of tax is beneficial for society primarily because it encourages companies and individuals to internalize the external costs associated with their actions, particularly those that lead to pollution or other environmental damage. By imposing this tax, the government effectively raises the cost of activities that generate negative external effects, prompting producers to reduce their output of harmful goods and services or to adopt cleaner technologies. This leads to an efficient allocation of resources, as producers adjust their behavior in response to the tax and seek to balance their production with the social costs of negative externalities. Consequently, the overall level of pollution in society is reduced, benefiting the environment and public health. Additionally, the revenues generated from a Pigouvian tax can be used to fund public projects or environmental initiatives, further enhancing societal benefits. Overall, such a tax aligns private incentives with social welfare, making it a powerful tool for improving market outcomes and protecting the environment.

8. Is it true that if transaction costs are low, private bargaining will always result in an efficient solution to externalities?

A. True

B. False

C. It depends on the extent of the externality

D. None of the above

The assertion that private bargaining will always result in an efficient solution to externalities when transaction costs are low is not necessarily true, hence the correct response is that it is false. While low transaction costs can facilitate negotiations between parties affected by externalities, several conditions must also be met for private bargaining to lead to an efficient outcome. For effective bargaining, affected parties need to have clear property rights and the ability to negotiate without significant barriers. Furthermore, the nature and scope of the externality itself can affect the bargaining process. For example, if there are many parties involved, coordination becomes more challenging, and the potential for inefficiency increases despite low transaction costs. In addition, even when transaction costs are low, externalities can persist if one of the parties involved does not have adequately defined rights or if information asymmetries exist, which can hinder fair negotiation. Therefore, while low transaction costs are beneficial, they are not a guarantee of achieving an efficient solution through private bargaining alone.

SAMPLE

9. In general, if demand is more elastic, who tends to bear less of the tax burden?

A. Consumers

B. Producers

C. Both equally

D. There is no impact

When demand is more elastic, consumers are more responsive to changes in price. This means that if a tax is imposed, consumers will reduce their quantity demanded significantly in response to a price increase caused by the tax. As a result, producers cannot pass on much of the tax burden to consumers without losing a substantial number of sales. In this scenario, the producers bear a larger share of the tax burden. Since prices are relatively sensitive to changes for elastic demand, suppliers are limited in their ability to raise prices without drastically affecting demand for their product. Therefore, when tax burdens are shared between consumers and producers, those in a situation where demand is more elastic will typically see consumers bearing less of the burden, as they will adjust their buying behavior more significantly in response to price increases. This dynamic highlights the importance of elasticity in determining how tax burdens are distributed between different market participants. Thus, consumers, facing the option to substitute goods or reduce consumption, effectively bear less of the tax burden when demand is elastic.

10. What role do transaction costs play in the Coase theorem?

A. They promote government regulation

B. They can hinder or facilitate negotiation

C. They are irrelevant to the theorem

D. They always lead to inefficient outcomes

Transaction costs are a critical element in understanding the Coase theorem, which posits that if property rights are clearly defined and transaction costs are negligible, parties can negotiate to achieve efficient outcomes regardless of who holds the rights. When considering the role of transaction costs, it becomes evident that they can either aid or obstruct negotiation efforts between parties. For instance, if transaction costs are low, individuals are more likely to successfully negotiate agreements that lead to efficient resource allocation. On the other hand, high transaction costs can pose significant barriers to reaching those agreements, making it difficult for parties to come to terms or to implement mutually beneficial changes. Because of the dual nature of transaction costs—they can hinder negotiations when they are high or facilitate them when low—the correct interpretation aligns well with this perspective. Understanding the implications of transaction costs helps illustrate the practical boundaries of the Coase theorem in real-world applications, highlighting that while the theoretical model proposes ideal conditions, actual outcomes may differ based on the costs of transactions involved.

SAMPLE

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://tamu-econ202-exam2.examzify.com

We wish you the very best on your exam journey. You've got this!

SAMPLE